

Dale Winch  
Ofgem  
By email only

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Dear Dale,

**Notices of statutory consultation on proposals to modify the Special and Standard conditions of the electricity transmission licence held by National Grid Electricity Transmission plc (“NGET”), each dated 15 December 2021 (“the Notices”)**

We welcome the opportunity to respond to the Notices. This response is made on behalf of NGET.

In the Annex to this letter we set out our detailed comments in relation to the proposed modifications to:

- The Special and Standard Conditions;
- The NARM Handbook; and
- The PCFH.

We are responding separately to the related consultation on the proposed modifications to the Re-Opener Guidance and Application Requirements Document.

In addition to the detailed comments set out in the Annex we also wanted to raise the following points:

1. Under the proposed drafting the NARM Handbook and Network Asset Risk Workbook now form part of the licence. Neither document was originally drafted on this basis but given this change in approach it is essential that the documents are drafted with the same clarity and precision as the licence, in particular given that a failure to comply may now give rise to a breach of licence. It is also imperative that the documents, in particular the NARM Handbook, provide a clear distinction as between content that is provided as mere guidance (and which may be amended by Ofgem direction) and content that is a requirement for licensees to comply with (which we understand will only be changed following statutory consultation). We have made a number of suggestions in the Annex as to how the documents could be clarified in this respect. Please note that we have not yet provided the completed table of fixed NARM methodology parameters (Appendix 5 of the NARM Handbook), we have provided the reasoning and suggestions for next steps in the Annex.
2. This statutory consultation does not include proposed changes to the RIIO-ET2 Price Control Financial Model (PCFM). However, there are a number of changes to the documents under consultation which require changes to the PCFM to provide consistency and clarity across the regulatory instruments. These changes to the PCFM can be addressed through the PCFM Working Group which is required to meet at least once between 1 January 2022 to 1 April 2022 (in accordance with the Price Control Financial Handbook) to provide a fit for purpose PCFM for the November 2022 Annual Iteration Process.
3. Special Condition 3.7 - Non-operational IT capex re-opener: As we have noted in our detailed

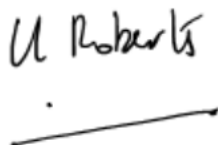
comments, the proposed drafting of this condition presents a number of issues that need to be clarified by Ofgem in light of the recent re-opener applications submitted by NGET in relation to which Ofgem is currently consulting on its minded to position. We would welcome clarification from Ofgem on these points and a discussion as to whether further licence modifications are required in order to address these points and provide necessary regulatory certainty prior to the licence modifications being directed.

4. RIIO-ET2 Price Control Financial Handbook (PCFH) paragraphs 2.64 - 2.66: As included in the detailed comments in the Annex, the proposed changes (and 2.66 in particular) introduce an inconsistency in the Allowed Revenue republication process between the licence and the PCFH. The licence requires that the published (or republished) value of Allowed Revenue is used in the charge setting process. It is not open to licensees to update  $K_t$  or  $LAR_t$ , as proposed in the PCFH drafting, following that publication or republication, since that would involve setting charges which are not in accordance with the published (or republished)  $AR_t$ . Any such changes to the republication policy would require further discussion with Ofgem.

Finally, as noted in the detailed comments in the Annex in some places, the statutory consultation drafting does not always show changes proposed to the licence in some places and the statutory notices do not make clear that the changes being proposed to the licence are those in track changes. In the final decision, it is important that the statutory notices state that the modifications being made to NGET's licence conditions are those set out in track changes in the drafting and that the drafting then shows all the appropriate changes tracked. It is imperative that it is absolutely clear what legal changes Ofgem is making to NGET's licence conditions.

For queries in relation to our consultation response please contact [patrick.hynes@nationalgrid.com](mailto:patrick.hynes@nationalgrid.com).

Yours, sincerely,



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